



Money Fund Intelligence™



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Interview w/Money Fund Pioneer James Benham

MFI is interviewing figures instrumental in the history of money market funds to get their current perspectives on the “cash” business. This month we talk with pioneer **James Benham**, founder of the **Benham Group** of Funds (acquired by **Twentieth Century**, now **American Century**, in 1995).

Benham launched the **Capital Preservation Fund**, the nation’s oldest Treasury money market fund for individuals, in 1972. He is currently retired and living in the Lake Tahoe area. We also spoke with the current American Century cash management team to give us their thoughts on the legacy of Benham.

We asked Benham to tell us about the invention of the money fund. He says, “I don’t think there’s a question that **Reserve** was the creator of the money fund, but they were [then] primarily for institutions. I was going after the individual, the guy who had the door closed on him when he went to buy T-bills.”

“In 1969, you could buy T-bills with just \$1,000. In 1970, they raised the minimum to \$10,000. I was trying to provide a vehicle that would let him in at \$1,000. So that’s the difference between what **Bruce**

Bent & Harry Brown and I were doing.”

Regarding the importance of mutual funds in general, Benham tells us, “That’s the whole idea [of a fund], it’s an ark for savers, protected from the elements.” He was surprised that the banks even survived the seventies. “I didn’t know that you could have 16% T-bill rates and still have the banks open,” he says. Benham pushed the Treasury angle: “I was out marketing the full faith and credit pledge ... and also knowing that the state didn’t tax that income.”

Banks Pushed ‘Money Markets’, T-Bills

“Most people got turned on to the money markets by banks and S&Ls that started doing this ‘money market account’ or ‘T-bill’ account. And they weren’t T-bills and they weren’t really money market accounts; they were CD’s tied to the Monday auction of the T-bill. That’s how the world got educated about the money market, and that in effect made **Bruce Bent** and **Jim Benham** and all those others credible people. Nobody had ever heard of the money market before that, so the banks and S&L’s really did it ... creating credibility around the term money market,” Benham says.

He also credits **Fidelity** with introducing check writing, saying, “Mutual funds used to make it hard to take money out. The easier we made it to take money out, the more money we got. A lot of people would test us, checking the mechanism to see if it worked. And they started trusting us.”

Got Idea from the Library

Benham tells *Money Fund Intelligence* how his fund came to be. “I was a stockbroker at Merrill Lynch in San Jose when all this was going down. I went to the library and found out that **Federated** had a fund called **Fund for U.S. Government Securities**, and it had over \$100 million.

“But it charged a load, I think it was like 3%. I thought to myself, ‘How big would that thing be if they took the load off.’ It’s

like a bank, with no bad loans. Bricks and mortar takes a lot of money to pay for, several percentage points, but you could run a money fund on basis points.

“Most people got turned on to the money markets by banks and S&Ls.... Nobody had ever heard of the money market before that.” - Jim Benham

That’s one of the elements that encouraged me to go out and do it,” he says

“We wanted to look like a bond fund [to stay under the radar]. Once the fund was opened, we

switched to a money fund. They wouldn’t let us open as a money fund, but once we were running we changed our policies and they couldn’t do anything about it,” says Benham.

American Century Today

We asked the **American Century Capital Preservation** Portfolio Management team of **Lynn Paschen**, **Denise Latchford**, and **Todd Pardula** whether Jim Benham’s legacy lives on at American Century, and asked them how managing money funds has changed.

They tell us, “Jim’s legacy is an integral part of today’s American Century. Many of his hand-picked key people, like Fixed Income CIO **Dave MacEwen** and Quantitative Equity CIO **John Schniedwind**, still serve in senior management positions with oversight of some \$36 billion in assets that American Century manages from its offices in Mountain View, California.”

“Jim’s innovations, such as target and inflation-adjusted funds, are truly unique and remain as key portfolios that American Century offers to individual investors. The quant group on the equity side of the Mountain View operation was a pleasant surprise.”

“The Benham Group acquisition was driven by American Century’s interest in the fixed income area and since the merger, the quantitative equity team is now handling significant assets of approximately \$15 billion. His son, **Tim Benham** still works here as a municipal bond team analyst,” they say. ♦

Crane Data LLC provides competitive intelligence on **money markets** and **mutual funds**. Crane Data was founded by money fund expert **Peter G. Crane** and computer & statistics guru **Shaun Cutts**. Our mantra is **faster, cheaper, and cleaner** data and market information.

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